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Annual review of the financial situation, 2016
Report of the Administrator

Summary

This report provides an overview of the financial position of UNDP and the United Nations Capital Development Fund (UNCDF) at the end of 2016. UNDP maintained a positive net asset position on its balance sheet and achieved regular resources year-end liquidity above the threshold requested by the Executive Board.

Total UNDP revenue increased by 6 per cent, to $5.103 billion (2015: $4.820 billion), and contributions were 8 per cent higher than in the previous year, at $4.866 billion (2015: $4.486 billion). Total expenses were $4.660 billion (2015: $5.057 billion).

2016 was a challenging financial year, as contributions to regular resources fell by 12 per cent, to $0.618 billion (2015: $0.704 billion), including $0.015 billion from programme country governments (2015: 0.023 billion). Regular resources expenses fell commensurately, by 13 per cent, to $0.712 billion (2015: $0.823 billion), remaining above the level of revenue by drawing upon the accumulated surplus, excluding unrealized adjustments from previous years.

Other resources contributions grew by 12 per cent, to $4.248 billion (2015: $3.782 billion). The ratio of regular to other resources fell to 13 and 87 per cent, respectively (2015: 16 and 84 per cent).

Contributions to other resources comprised funding from: programme country governments, $0.98 billion, an increase of 9 per cent (2015: $0.901 billion); donor country governments, which increased by 12 per cent, to $1.489 billion (2015: $1.335 billion); and multilateral partners, which grew by 15 per cent, to $1.778 billion (2015: $1.546 billion). Other resources expenses decreased, by 7 per cent, to $4.151 billion (2015: $4.460 billion), remaining above the level of contributions.

UNDP coordinates the United Nations system at the country level and plays a vital role in forging development coherence. Further contributing towards coherence, the value of fund flows to multi-donor trust funds, joint programmes, and United Nations organizations rose by 10 per cent to $1.532 billion (2015: $1.389 billion).

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UNCDF revenue totalled $0.053 billion. Contributions decreased to $0.055 billion (2015: $0.058 billion). Total expenses decreased to $0.063 billion, primarily for development activities (2015: $0.067 billion), remaining above the level of total revenue by drawing upon the accumulated surplus from previous years.

Elements of a decision

The Executive Board may wish to:

(a) take note of documents DP/2017/30, DP/2017/30/Add.1, and DP/2017/31;

(b) note the importance of regular resources, which remains the bedrock of UNDP support to programme countries, particularly the poorest and most vulnerable, and to the coherence and effectiveness of the United Nations development system;

(c) urge Member States to prioritize regular resources and flexible other resources such as the new funding windows, given that further reductions in regular resources risk jeopardizing the ability of UNDP to achieve planned strategic results;

(d) recall the importance of funding predictability, timeliness of payments and adherence to multi-year pledges to avoid liquidity constraints in regular resources;

(e) urge Member States that have not yet provided their contribution to regular resources for 2017 to do so, and encourage those countries which have not contributed to regular resources in the past to consider doing so;

(f) recall decision 2013/30, and urge all programme countries to meet their obligations with respect to government local office costs.

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B. Statement of financial position as at 31 December 2016

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I. Introduction

1. This report provides an overview of the financial position of UNDP and UNCDF at the end of 2016.

2. Annexes I-V are available on the Executive Board web page. Tables 1-11, in DP/2017/30/Add.1, provide further details of the activities undertaken by UNDP and UNCDF.

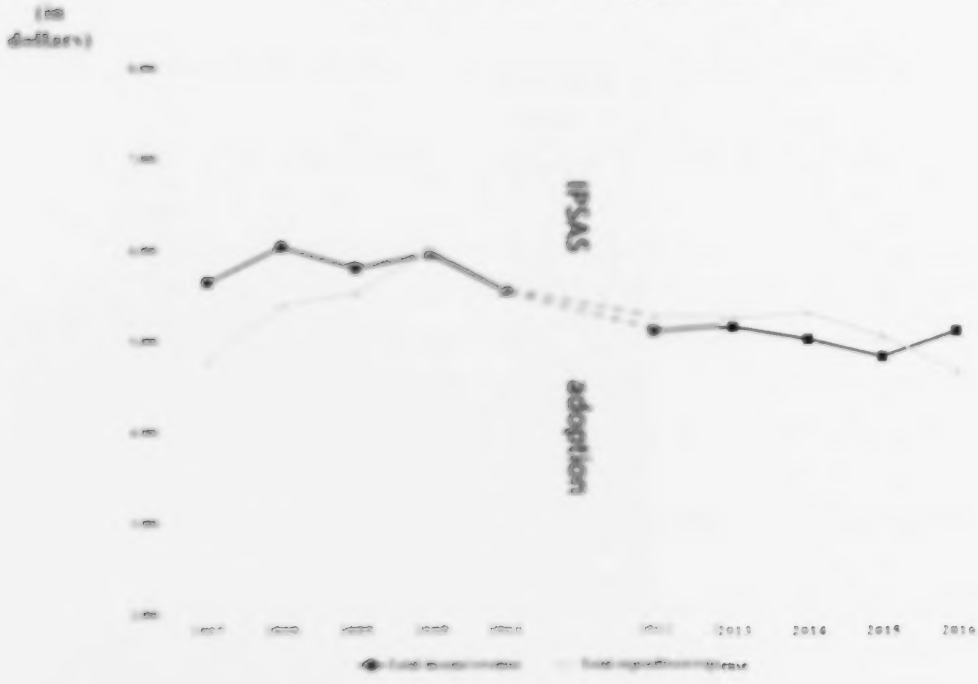
3. In accordance with Executive Board decision 2013/28, this report includes a comparative overview of actual 2016 utilization compared to the resource planning figures in the UNDP integrated budget, 2014-2017 (DP/2013/41), and the corresponding annex II. It also includes annexes III.A and III.B in the format of the UNDP integrated resources plan. Annex III.C provides the resources allocated to posts, by location.

II. UNDP overview

A. Revenue

4. In a challenging financial environment, total UNDP revenue increased by 6 per cent, to $5,103 million (2015: $4,820 million). Total expenses decreased by 6 per cent, to $4,660 million (2015: $5,057 million). UNDP continued to maintain a positive net asset position on the balance sheet, and a year-end core liquidity position above the minimum threshold requested by the Executive Board (see paragraph 48). Figure 1 illustrates the trend.

Figure 1. Revenue and expenses, 2007-2016



Note: IPSAS = International Public Sector Accounting Standards

5. Total revenue grew by 6 per cent, to $5,103 million (2015: $4,820 million). Table 1 shows the breakdown.

Table 1. UNDP revenue, 2016
(in millions of dollars)

Resources	2016	2015	*increase (decrease)*	*% change*
Revenue				
Contributions	4,866	4,486	380	8%
GLOC accounting linkage	(1)	(3)	2	(67%)
GLOC	43	43	-	0%
Contributions in kind	20	17	3	18%
Transfer of funds and refunds to funding partners	(143)	(70)	(73)	104%
Contributions, net	4,785	4,473	312	7%
Hedging	7	10	(3)	(30%)
Investments	53	41	12	29%
Other	461	522	(61)	(12%)
Total revenue before elimination	5,306	5,046	260	5%
Elimination	(203)	(226)	23	(10%)
Total revenue after elimination	5,103	4,820	283	6%

6. Table 2a presents the total UNDP contributions of $4,866 million, which increased by 8 per cent (2015: $4,486 million). This includes contributions receivable from partners of $106 million (2015: $59 million). UNDP was funded 13 per cent from regular resources and 87 per cent from other resources (2015: 16 per cent and 84 per cent, respectively), a trend that continues in 2016.

Table 2a. UNDP contributions by funding partners, 2016
(in millions of dollars)

Year	Donor country governments	Programme country governments	Multilateral partners	Total
2016	2,092	996	1,778	4,866
2015	2,016	924	1,546	4,486
Increase/(decrease)	76	72	232	380
% change	4%	8%	15%	8%

7. Of total contributions, $2,092 million came from donor country governments, representing 43 per cent (2015: 45 per cent); $996 million came from programme country governments – primarily in support of their national development – representing 20 per cent (2015: 21 per cent); and $1,778 million came from multilateral partners, representing 37 per cent (2015: 34 per cent). UNDP remains committed to further diversifying the funding base across and beyond governments.

Table 2b. UNDP contributions by resource type, 2016
(in millions of dollars)

Resources	2016			2015		
	Regular resources	Other resources	Total	Regular resources	Other resources	Total
Revenue						
Contributions	618	4,248	4,866	704	3,782	4,486
less: GLOC* Accounting linkage	(1)	-	(1)	(3)	-	(3)
GLOC contributions	28	15	43	31	12	43
Contributions in-kind & other	19	1	20	17	-	17
Transfer of funds & refunds to donors	-	(143)	(143)	(3)	(67)	(70)
Contributions, net	664	4,121	4,785	746	3,727	4,473

*GLOC - Government contributions to local office costs

8. Total contributions to regular resources fell by 12 per cent, to $618 million (2015: $704 million). Government cash contributions to local office costs decreased by 10 per cent to $28 million (2015: $31 million). Total in-kind contributions from donors reached $19 million (2015: $17 million).

9. While UNDP has responded to the reductions with institutional efficiency and economy measures, regular resources remain vulnerable to volume reductions and exchange rate fluctuations. UNDP continues to adapt to fluctuations in funding, although further reductions in regular resources jeopardize its ability to achieve planned strategic results.

10. Total other resources contributions increased by 12 per cent, from $3,782 million in 2015 to $4,248 million, including $106 million in receivable income. The details of other resources are reported in chapters IV (cost sharing), V (trust funds) and VI (reimbursable support services and miscellaneous activities).

11. Other resources contributions are 'earmarked' for individual programmes or projects and are important complements to the 'un-earmarked' regular resource base of UNDP. UNDP is committed to working with Member States to improve the flexibility of other resources funding.

Investment revenue

12. Total investment revenue increased by 29 per cent, to $53 million (2015: $41 million, consisting of $16 million in regular resources (2015: $12 million); $22 million in cost sharing (2015: 17 million); $9 million in trust funds (2015: $7 million); and $6 million in reimbursable support services and miscellaneous activities (2015: $5 million). The rate of return on the investment portfolio exceeded the three-month London Inter-Bank Offered Rate benchmark throughout 2016.

B. Expenses

13. Total expenses decreased by 8 per cent, to $4,660 million (2015: $5,057 million). Eighty-three per cent (2015: 84 per cent) was spent on development activities, including development effectiveness; 3 per cent (2015: 3 per cent) on United Nations development coordination activities; 7 per cent (2015: 7 per cent) on management activities; 2 per cent (2015: 1 per cent) on special-purpose activities; and 5 per cent (2015: 5 per cent) on other activities.

14. Management expense comprises $109 million (2015: $148 million) for regular resources and $252 million (2015: 238 million) for other resources, including prior year accumulated cost recovery resource balances, due to the reduced level of core resources available to fund management expenses.

15. UNDP is the steward of the resident coordinator system that leads the strategic planning and coordination of United Nations country teams. Total expenses on United Nations development coordination activities increased by 1 per cent, from $128 million in 2015 to $129 million in 2016.

Table 3a. UNDP overall expenses, 2016
(in millions of dollars)

Resources	2016	2015	Increase/ (decrease)	% change
Expenses				
Development activities				
Programme	3,878	4,238	(360)	(8%)
Development effectiveness	166	179	(13)	(7%)
Subtotal – development activities	4,044	4,417	(373)	(8%)
United Nations development coordination activities	129	128	1	1%
Management activities	361	386	(25)	(6%)
Special-purpose activities	71	64	7	11%
Other activities	258	288	(30)	(10%)
Total expenses before elimination	4,863	5,283	(420)	(8%)
Elimination	(203)	(226)	23	(10%)
Total expenses	4,660	5,057	(397)	(8%)

16. The total expenses of $4,863 million by resource type is shown in table 3b.

Table 3b. UNDP expenses, by resource type and cost classification, 2016
(in millions of dollars)

Resources	2016			2015		
	Regular resources	Other resources	Total	Regular resources	Other resources	Total
Expenses						
Development activities						
Programme	277	3,601	3,878	418	3,820	4,238
Development effectiveness	62	104	166	81	98	179
Subtotal – development activities	439	3,605	4,044	499	3,918	4,417
United Nations development coordination activities	93	36	129	94	34	128
Management activities	109	252	361	148	238	386
Special-purpose activities	11	60	71	16	48	64
Other activities	60	198	258	66	222	288
Total expenses before elimination	712	4,151	4,863	823	4,460	5,283

C. Accumulated surplus

17. The financial regulations and rules of UNDP require it to operate on a fully-funded basis for activities funded by other resources. In accordance with partnership agreements, all project balances are segregated for accounting and reporting purposes, with no commingling of balances between projects. Appropriate cash balances are held for settling current or future liabilities.

18. UNDP receives programmatic resources for multi-year programmes linked to individual programmes or projects. Hence, in any given year there is an excess of resources over expenditure. This excess of resources is referred to as the accumulated surplus, which consists mainly of resources committed for future programme delivery. As at 31 December 2016, the accumulated surplus, excluding reserves, increased by 12 per cent, to $4,381 million (2015: $3,929 million). This

resource comprises cost-sharing surpluses of $2,768 million, of which $825 million is cost sharing from programme country governments, third-party cost sharing ($1,694 million) from donor governments, and $249 million from the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), a vertical fund; $1,144 million from trust funds, consisting of $565 million from vertical funds (the Global Environment Facility (GEF), the Montreal Protocol and the Green Climate Fund), and $579 million from others; $380 million from reimbursable support services; and $89 million from regular resources.

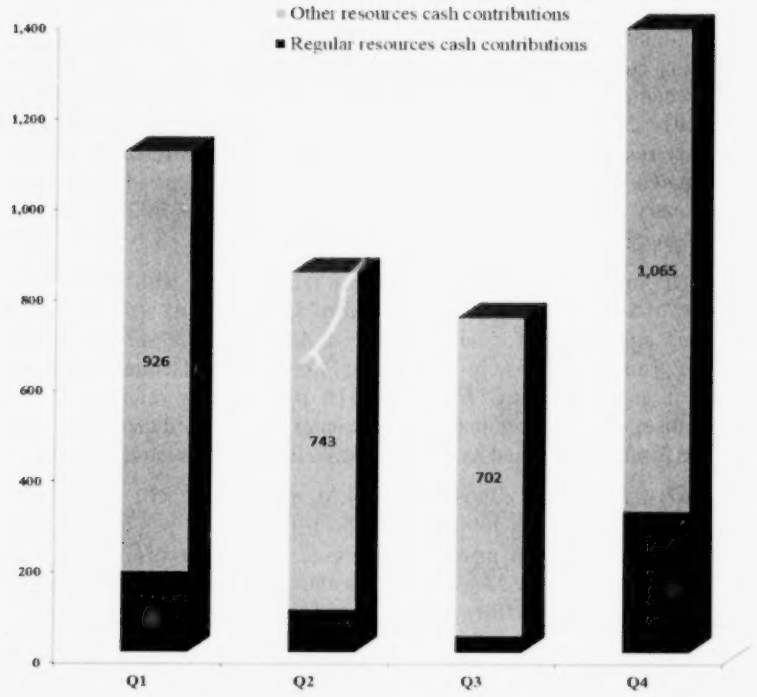
19. On the institutional budget, in 2016 UNDP made concerted efforts to reduce costs by $54 million compared to 2015, reflecting a reduction of the management ratio to an unprecedented 8.0 per cent in 2016, which is below the IRRF target of 8.1 per cent for 2014-2017. Nevertheless, in 2016, UNDP drew $71 million from past extra-budgetary reserves to fund the institutional budget costs resulting from a higher-than-anticipated pace of decline in core contributions. In addition, $33 million in transitionary measures were funded from core resources in 2016, in line with the integrated budget, 2014-2017.

20. In 2016, UNDP total expenses were below total revenue, with the overall surplus for the year of $443 million (2015: a deficit of $237 million) offset by a $27 million accounting adjustment for an unrealized loss to after-service health insurance, resulting from an increase in the actuarial assumption discount rate based on the independent actuarial study. A further $16 million was released to the accumulated surpluses from the operational reserve, in accordance with the operational reserve formula approved by the Executive Board in decision 1999/9.

21. Timely and early payments of contributions by Member States will aid delivery of development results. In 2016, a total of $1,376 million, or 34 per cent of total cash contributions for current and prior years (regular and other resources), was received in the last quarter (2015: 28 per cent), as shown in figure 2. Nonetheless, most of the accumulated surplus is fully programmed for delivery in future years.

22. UNDP continues to seek opportunities to accelerate the delivery of development results and further draw down its accumulated surplus, taking into account the revenue increase in 2016, the timing of the receipt of funds, the programme cycle, and the approved UNDP regulatory and governance framework.

Figure 2. Receipt of resources, by quarter, 2016
(in millions of dollars)

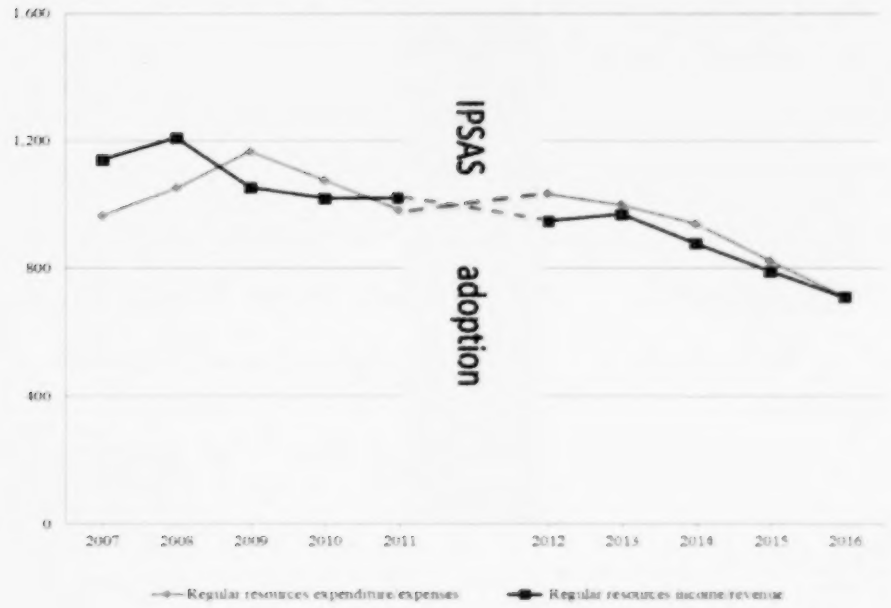


III. Regular resources

A. Revenue

23. Regular resources revenue, inclusive of contributions, investment interest revenue and other revenue, decreased by 10 per cent, to $710 million (2015: $791 million). Expenses decreased by 13 per cent, to $712 million (2015: $823 million). The small excess of expenses over revenue of $2 million (2015: $32 million) was funded from the accumulated surplus.

Figure 3. Regular resources revenue and expenses, 2007-2016
(in millions of dollars)



Note: IPSAS = International Public Sector Accounting Standards

Table 4. Regular resources revenue, 2015-2016
(in millions of dollars)

Regular resources	2016	2015	Increase/ (decrease)	% change
Revenue				
Contributions	618	704	(86)	(12%)
GLOC* accounting linkage	(1)	(3)	2	(67%)
GLOC	28	31	(3)	(10%)
Contributions in kind	19	17	2	12%
Transfer of funds & refunds to funding partners	-	(3)	3	-
Contributions, net	664	746	(82)	(11%)
Hedging	7	10	(3)	(30%)
Investments	16	12	4	33%
Other	23	23	-	-
Total revenue	710	791	(81)	(10%)

*GLOC = Government contributions to local office costs

Contributions

24. Contributions to regular resources decreased by 12 per cent ($86 million) from $704 million to $618 million. This decrease was partly attributable to foreign exchange effects (net reduction of $23 million, compensated by a $7 million benefit from the hedging programme).

25. Contributions from the top 10 partners amounted to $527 million, representing 85 per cent of total contributions of $618 million (2015: $586 million; 83 per cent of total contributions of $704 million). This comprised $603 million from donor country governments (2015: $681 million) and $15 million from programme country governments (2015: $23 million).

26. In addition to Sweden, the Netherlands, and Germany, as listed in table 5, Iceland, Italy, the Republic of Korea, and Saudi Arabia also increased their regular resources contributions in United States dollars or local currencies. The increased United States contribution includes the balance of amounts held back in previous years. Six programme country governments and one donor country resumed making contributions in 2016 after suspending them for one or more years.

27. Fifty-two Member States contributed to regular resources (2015: 51), including 23 programme countries (2015: 24). Details of contributions to regular resources by Member States are presented in table 4 of document DP/2017/30/Add.1.

Table 5. Regular resources contributions – top 10 partners, 2015-2016 (in millions of dollars)

Donor	Contributions in local currency (millions)			Contributions expressed as dollars (millions)		
	2016	2015	Per cent change	2016	2015	Per cent change
United States of America	83	75	11%	83	75	11%
Sweden	615	495	24%	72	59	22%
United Kingdom of Great Britain and Northern Ireland	55	55	-	69	83	(17%)
Norway	535	630	(15%)	64	81	(21%)
Japan *				60	67	(10%)
Switzerland	57	57	-	57	60	(5%)
Canada	40	40	-	32	33	(3%)
Netherlands	28	18	56%	32	20	60%
Denmark	210	330	(36%)	30	47	(36%)
Germany	25	22	14%	28	25	12%
Total for top 10 donors	N/A	N/A	N/A	***527***	***550***	(4%)
Others	N/A	N/A	N/A	***91***	***154***	(40%)
Total voluntary contributions				**618**	**704**	(12%)
Funds received in 2015 for 2014					(41)	
Adjusted contributions				**618**	**663**	(7%)
* Contributions pledged and received in dollars						

28. Declining regular resources pose a key challenge, constraining the ability of UNDP to ensure global development effectiveness and make strategic choices and investments. If regular resources further decrease, it will not be possible for UNDP to maintain the protections for the programme budget now in place. Reduced support for development effectiveness and management could also accentuate organizational risks due to adverse effects on institutional capacity for quality assurance, monitoring, accountability and oversight.

Government contributions to local office costs

29. Government contributions to local office costs are an important source of revenue and can be in the form of cash or in-kind donations. Against the 2016 target (cash and in kind) of $34 million, contributions of $18 million were received, consisting of cash contributions of $11 million and in-kind contributions of $7

million for premises, buildings and utilities. In addition, $17 million was received against arrears (2015: $14 million).

30. Tables 8(a), 8(b) and 8(c) in document DP/2017/30/Add.1 provide information on 2016 government cash contributions to local office costs in regular resources by countries in low and middle income categories, cumulative arrears to 2016, and contributions towards prior period arrears. Table 4, in the same document, shows government contributions to local office costs including contributions from net contributor countries and upper-middle income countries.

Hedging programme

31. The UNDP currency hedging programme generated a $7 million benefit by securing better exchange rates than the monthly United Nations rate on regular resources contributions, plus premiums earned on options transactions. UNDP continued the programme in 2016. Given continued volatility of exchange rates, a dynamic approach to hedging is being followed, based on market conditions and exposure of regular resources contributions.

Other revenue

32. Other revenue, mainly comprising miscellaneous revenue and exchange gains on assets, totalled $23 million (the same as 2015).

B. Expenses

33. Pursuant to Executive Board decision 2010/32, expenditures are reported in four harmonized cost-classification categories: (a) development; (b) United Nations development coordination; (c) management; and (d) special purpose. Expenditures outside those cost classifications are reported under 'other activities' and included as part of overall expenditure.

34. Regular resources expenses fell by 13 per cent, to $712 million (2015: $823 million), just $2 million above the level of revenue, by drawing on the accumulated surplus. UNDP also took measures to reduce expenses to achieve the minimum required liquidity level. While total expenses were reduced, programme components such as TRAC[1]-1, TRAC-3 and South-South cooperation were not affected. UNDP managed to protect United Nations development coordination activities and maintain the level of expense at almost the same level as 2015. UNDP also minimized the reductions in programme expenses of unprotected programme lines by focusing reductions on management expenditures. Regular resources expenses, by cost classification, are shown below.

Table 6. Regular resources expenses, by cost classification, 2015-2016 (in millions of dollars)

Regular resources	2016	2015	*Increase/ (decrease)*	*% change*
Expenses				
Development activities				
Programme	377	418	(41)	(10%)
Development effectiveness	62	81	(19)	(23%)
Subtotal development activities	439	499	(63)	(12%)
United Nations development coordination activities	93	94	(1)	(1%)
Management activities	109	148	(39)	(26%)

[1] Target for resources assignment from the core

Special-purpose activities	11	16	(5)	(31%)
Other	60	66	(6)	(9%)
Total expenses	712	823	(111)	(13%)

Development expenses

35. Development expenses decreased by 12 per cent, to $439 million (2015: $499 million). This is in line with the reduction in regular resources, given the volume of regular resources contributions received.

United Nations development coordination expenses

36. UNDP support to the resident coordinator system decreased, by 1 per cent, to $93 million (2015: $94 million), maintaining the support highlighted in the strategic plan and integrated budget, 2014-2017. Those expenses incorporate both financing the 'backbone' resident coordinator system structure at country, regional and global levels, and the UNDP share of supplemental costs as part of the system-wide cost sharing of the resident coordinator system.

Management expenses

37. Expenses were reduced by 26 per cent, to $109 million (2015: $148 million), in order to ensure that the programme component of the integrated budget did not bear the full reduction in revenue. Further details are presented in section C, below.

Special-purpose expenses

38. Expenses totalled $11 million (2015: $16 million). Major expenses are $9 million (2015: $10 million) related to the United Nations Volunteers programme (UNV), and $3 million related to UNCDF (2015: $4 million). The significant decline in core contributions required reprioritization of UNDP activities and affected expenses for UNV.

Other expenses

39. Other expenses totalled $60 million (2015: $66 million), of which $17 million (2015: $23 million) related to after-service health insurance, and $22 million (2015: $19 million) to currencies revaluation and exchange rate fluctuations.

40. UNDP participates in the United Nations system-wide valuation of post-retirement benefits, performed by an independent actuary. The latest valuation was carried out as at 31 December 2015. The after-service health insurance liability, valued at $1,035 million (2015: $954 million), was recorded as a UNDP liability in accordance with International Public Sector Accounting Standards. The $81 million (16 per cent) increase in liability is due primarily to a decrease in the actuarial assumption discount rate and rising medical claim costs.

41. UNDP has a 15-year plan to fund its after-service health insurance liability. Of the $1,035 million; $576 million had been funded as of 31 December 2016. The management of the portfolio has been outsourced to external professional investment managers to optimize the ability to fund these liabilities. Approximately half of the funds set aside have been transferred to the externally managed portfolios, with the remainder to be transferred over the next 12 months. UNDP, UNFPA, UNCDF, the United Nations Children's Fund and UN-Women collaborated to implement this arrangement.

C. Regular resources and integrated budget expenditure

42. For activities reported in 2016, UNDP operates within the integrated budget, 2014-2017, as approved by the Executive Board in decision 2013/28, for regular resources-financed activities: (a) programmatic components; and (b) institutional components.

43. Annex II compares the final approved budget, covering both programmatic and institutional components, with the actual expenditure amounts, calculated on the same basis as the corresponding budget for regular resources (modified accruals basis).

44. During 2016, significantly reduced levels of contributions to regular resources, exacerbated by the strengthening of the dollar, resulted in sharply reduced regular resources. UNDP took measures to reduce expenditures, affecting both programmatic and institutional components, but maintained the three-month liquidity requirement for regular resources mandated by the Executive Board.

45. Table 7 compares actual expenditures for 2015 and 2016. In 2016, 33 per cent of regular resources were spent on institutional costs, compared to 37 per cent in 2015. Thus, the share of regular resources for programmatic activities increased from 63 per cent in 2015 to 67 per cent in 2016. Moreover, within the reduced institutional budget, the proportion of management costs has decreased significantly from 42 to 38 per cent over these two years.

Table 7. Integrated budget expenditure, by cost classification category, 2015-2016 (in millions of dollars)

Regular resources	**2016 actual expenditures**		**2015 actual expenditures**	
Programmatic	67%	$415	63%	$451
Institutional	33%	$207	37%	$261
Total	100%	$622	100%	$712
Institutional	**2016 actual expenditures**		**2015 actual expenditures**	
Development Effectiveness	21%	$43	24%	$62
United Nations coordination	37%	$77	29%	$76
Management	38%	$78	42%	$110
Special-purpose	4%	$9	5%	$13
Total	100%	$207	100%	$261

46. Annex III.A presents the integrated resources plan that covers regular and other resources for the period 2014-2017 and compares the plan with 2014-2016 actuals. This comparison shows that:

(a) activities reported in 2014-2016 remain within the approved integrated resources plan;

(b) at the end of the period 2014-2016, UNDP had achieved the management ratio level of 8.1 per cent, targeted for the end of the period 2014-2017 (in 2012-2013: 8.7 per cent); and

(c) overall expenditure level of programmatic activities in 2014-2016 increased, reaching 88.2 per cent (in 2012-2013: 88.0 per cent).

47. Annex III.B presents 2014-2016 actuals versus estimates of the institutional components of the integrated resources plan by functional cluster, while annex III.C presents information on resources allocated to posts by location.

D. Accumulated surplus

48. The accumulated surplus at 31 December 2016 increased to $89 million (2015: $85 million), due mainly to $16 million that was released to the accumulated surplus from the operational reserve, in accordance with the operational reserve formula (Executive Board decision 1999/9). It was offset by a deficit of $2 million, an accounting adjustment of $11 million for an unrealized loss to after-service health insurance, and a $1 million accounting adjustment relating to investments.

49. In line with decision 1999/9, a prudent level of liquidity for regular resources is equivalent to three to six months' expenditures. UNDP maintained the year-end core liquidity position at 4.6 months of working capital, above the minimum threshold.

50. Based on the operational reserve formula approved in decision 1999/9 and on the final 2015 income and expenditure figures, the regular resources operational reserve was adjusted downwards, and $16 million was transferred back to the regular resources fund balance.

IV. Cost sharing

51. Cost sharing is a co-financing modality, with resources provided by donor governments, programme country governments and other partners.

A. Revenue

52. Cost-sharing total revenue increased by 19 per cent, to $3,101 million (2015: $2,599 million). The breakdown is shown below.

Table 8. Cost-sharing revenue, 2015-2016
(in millions of dollars)

Cost sharing	2016	2015	Increase/ (decrease)	% change
Revenue				
Contributions	3,191	2,634	557	21%
Transfer of funds and refunds to funding partners	(116)	(62)	(54)	87%
Contributions, net	3,075	2,572	503	20%
Investments	22	17	5	29%
Other	4	10	(6)	(60%)
Total revenue	3,101	2,599	502	19%

Contributions

53. Cost-sharing contributions grew by 21 per cent, to $3,191 million (2015: $2,634 million), due to increases by donor and programme country governments and multilateral partners. This comprises $3,088 million in contributions received and $103 million receivable.

Table 9. Cost-sharing contributions by funding partners, 2015-2016
(in millions of dollars)

Year	Donor country governments	Programme country governments	Multilateral partners	Total
2016	982	964	1,245	3,191
2015	773	887	974	2,634

Increase (decrease)	209	77	271	557
% change	27%	9%	28%	21%

Donor country governments

54. Contributions from donor country governments rose by 27 per cent, to $982 million, representing 31 per cent of cost-sharing contributions (2015: 29 per cent). Figure 4 shows contributions from the top 10 donor country governments, which totalled $883 million (2015: $685 million), 28 per cent of cost-sharing contributions.

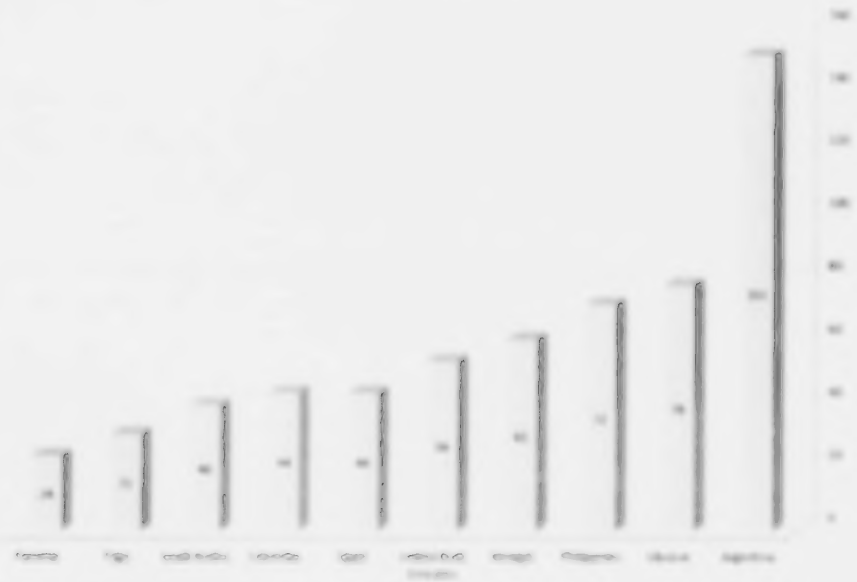
Figure 4. Cost-sharing contributions, top 10 donor country governments, 2016 (in millions of dollars)

Programme country governments

55. Contributions channelled through UNDP by programme country governments increased by 9 per cent, to $964 million (2015: $887 million), representing 30 per cent of cost-sharing contributions (2015: 34 per cent).

56. Of these, 62 per cent (2015: 66 per cent) came from Governments of 10 programme countries. Among these countries, Ukraine, the Philippines, Senegal, the United Arab Emirates, Colombia, Togo, and Panama increased their cost-sharing contributions in 2016. The largest contributions were received from the Governments of Argentina, the Philippines, Senegal, Ukraine, and the United Arab Emirates.

Figure 9. Cost-sharing contributions: top 10 programme country governments, 2016 (in millions of dollars)



57. Multilateral resources comprised funding from multilateral partners and multi-donor trust funds/joint programmes.

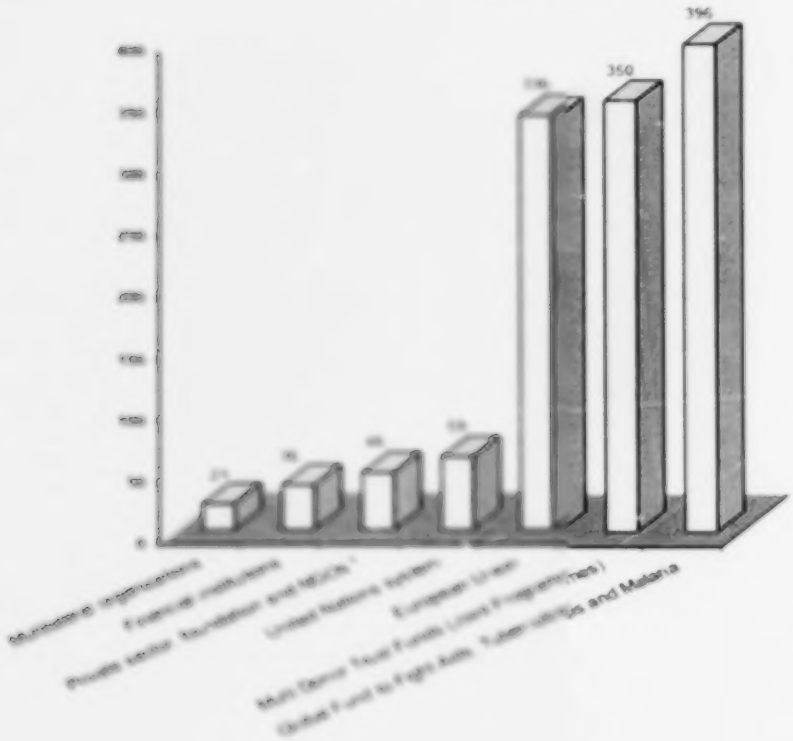
58. Contributions from multilateral resources rose to $1,245 million (2015: $974 million), representing 39 per cent (2015: 37 per cent) of cost-sharing contributions.

59. Contributions from the GEAFM amounted to $396 million (2015: $374 million), excluding $86 million received for later programming (2015: $104 million), which will be recognized as contributions in 2017. Contributions from the European Union also increased, to $336 million (2015: $216 million). Funds channelled through the Multi-Partner Trust Fund Office increased to $150 million (2015: $282 million).

60. Contributions from the private sector, foundations and non-governmental organizations decreased by 8 per cent, to $46 million (2015: $50 million). The Global Alliance for Vaccines and Immunization ($14 million), Education Above All-Al Fakhoora ($7 million), and the Paltel Group Foundation ($7 million) were the top contributors.

61. Total contributions from international and regional financial institutions increased by 35 per cent to $36 million (2015: $23 million), primarily representing contributions to UNDP for programming in country offices. The World Bank and the Islamic Development Bank were the top contributors, with contributions of $24 million and $12 million, respectively.

Figure 6. Cost-sharing contributions, multilateral partners, 2016
(in millions of dollars)



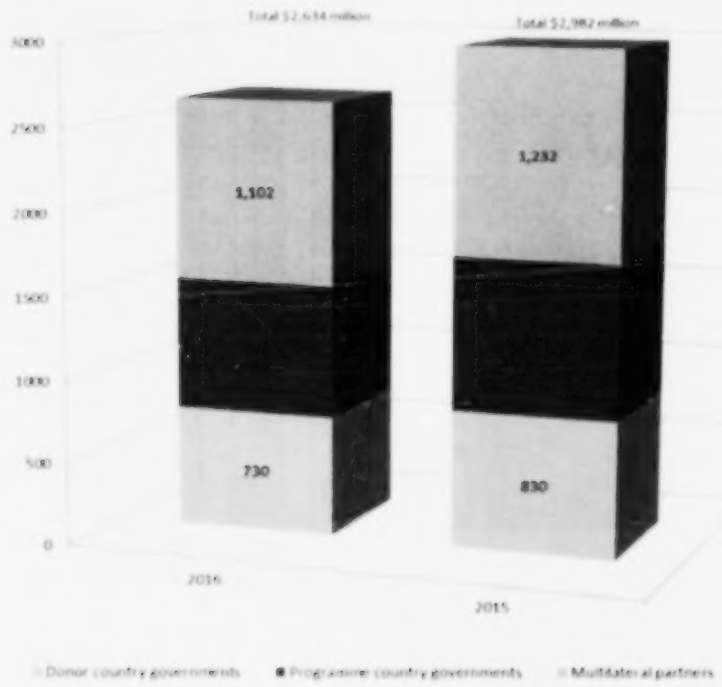
Other revenue

62 Other revenue totalled $4 million (2015: $10 million), which includes miscellaneous revenue such as income generated by projects, reimbursements for services and foreign exchange gains.

B. Expenses

63 Cost-sharing expenses, which are for development activities, decreased by 12 per cent, to $2,634 million (2015: $2,982 million), of which 28 per cent was funded by donor country governments, 30 per cent by programme country governments and 42 per cent by multilateral partners.

Figure 7. Breakdown of cost-sharing expenses, 2015-2016 (in millions of dollars)



C. Accumulated surplus

64. The accumulated cost-sharing surplus as at 31 December 2016 was $2,768 million (2015: $2,301 million), including $824 million of government cost sharing and $249 million of vertical funds. At the time of preparation of this report, 85 per cent of those cost-sharing resources have been programmed for delivery in future years.

V. Trust funds

65. A trust fund is a co-financing modality established as a separate accounting entity under which UNDP receives contributions to finance its programme activities; it is overseen by a trust fund manager.

A. Revenue

66. Trust fund revenue decreased by 8 per cent, to $970 million (2015: $1,060 million). The breakdown is shown below.

Table 10. Trust fund revenue, 2015-2016
(in millions of dollars)

Trust funds	2016	2015	Increase (decrease)	% change
Revenue				
Contributions	973	1,057	(84)	(8%)
Transfer of funds and refunds to donors	(16)	(5)	(11)	220%
Contributions, net	957	1,052	(95)	(9%)
Investment revenue	9	7	2	29%
Other revenue	4	1	3	300%
Total revenue	970	1,060	(90)	(8%)

Contributions

67. Contributions dropped to $973 million (2015: $1,057 million), including $215 thousand receivable. The decrease is mainly in the GEF, the Law and Order Trust Fund for Afghanistan (LOTFA), and the Thematic Trust Fund for Crisis Prevention and Recovery.

Table 11. Trust fund contributions by funding partner source, 2015-2016
(in millions of dollars)

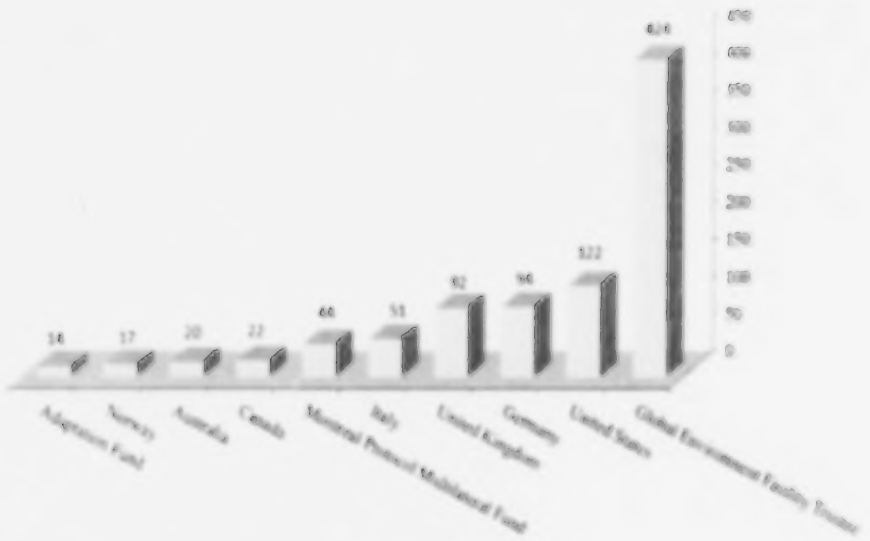
Year	Donor country governments	Programme country governments	Multilateral partners	Total
2016	470	4	499	973
2015	522	8	527	1,057
Increase (decrease)	(52)	(4)	(28)	(84)
% change	(10%)	(50%)	(5%)	(8%)

68. Figure 8 presents the top 10 contributions by bilateral governments and multilateral partners to trust funds, which totalled $900 million (2015: $970 million) representing 92 per cent of total trust funds contributions. Of this, $375 million was for LOTFA and a total of $28 million for the funding windows.

69. In March 2016, UNDP launched new funding windows that provide pooled, flexible funding mechanisms to support country-level efforts in achieving the sustainable development goals. Total contributions reached $37 million ($19 million for climate change and disaster risk reduction; $13 million for governance for peaceful and inclusive societies; $4 million for emergency development response to crisis and recovery; and $1 million for sustainable development and poverty eradication).

Figure 8. Trust fund contributions, top 10 partners, 2016

(in millions of dollars)



70. Contributions to trust funds from programme country Governments totalled $4 million (2015: $8 million). Top contributors were China ($2 million for the Trust Fund for the Promotion of South-South Cooperation); South Africa ($1 million for the India, Brazil and South Africa Facility for Poverty and Hunger Alleviation); and India ($1 million for the Facility).

Other revenue

71. Other revenue, of $4 million (2015: $1 million), consisted of miscellaneous income and gains from foreign exchange rate fluctuations.

B. Expenses

72. Trust fund expenses increased by 4 per cent to $855 million (2015: $823 million), due mainly to an increase of $72 million for LOTFA offset by expense reductions in other trust funds.

Table 12. Trust fund expenses, by cost classification, 2015-2016
(in millions of dollars)

Trust funds	2016	2015	Increase/ (decrease)	% change
Expenses				
Development activities				
Programme	819	779	40	5%
Development effectiveness	36	44	(8)	(18%)
Subtotal – development activities	855	823	32	4%
Management activities	-	-	-	
Total expenses	855	823	32	4%

Development expenses

73. Development activities comprised $819 million for programme activities and $36 million for development effectiveness activities, as follows: development expenses of the GEF, $352 million (41 per cent); of LOTFA, $319 million (37 per cent); and of thematic trust funds, $60 million (7 per cent), including $34 million for the Thematic Trust Fund for Crisis Prevention and Recovery, $14 million for the Thematic Trust Fund for Environment and $7 million for the Democratic Governance Thematic Trust Fund.

74. Development effectiveness expenses represent those of policy/advisory, technical and implementation activities needed to achieve programme and project objectives in UNDP areas of focus for the GEF and the Multilateral Fund for the Implementation of the Montreal Protocol. Management expenses related to overall non-core trust fund activities are reported under reimbursable support services.

C. Accumulated surplus

75. Trust funds reported a surplus of $115 million. The accumulated surplus at the end of 2016 rose to $1,144 million (2015: $1,029 million), including $565 million (49 per cent) for vertical funds. At the time of preparation of this report, 88 per cent of all available trust fund resources had been programmed for delivery in future years.

VI. Reimbursable support services and miscellaneous activities

76. Reimbursable support services and miscellaneous activities represent resources from provision of management and other support services to third parties, and include, primarily, the following activities: the Junior Professional Officer programme; UNV; management service agreements; special activities; and cost recovery.

A. Revenue

77. Revenue dropped by 12 per cent, to $525 million.

Table 13. Reimbursable support services and miscellaneous activities revenue, 2015-2016

(in millions of dollars)

Reimbursable support services and miscellaneous activities	2016	2015	Increase/ (decrease)	% change
Revenue				
Contributions	84	91	(7)	(8%)
Net contributor country contributions to local office costs	15	12	3	25%
Contributions in-kind and other	1		1	-
Transfer of funds and refunds to donors	(11)		(11)	-
Contributions, net	89	103	(14)	(14%)
Investment revenue	6	5	1	20%
Other revenue	430	488	(58)	(12%)
Total revenue before elimination	525	596	(71)	(12%)

Contributions

78. The contributions of $84 million are shown in table 14 below. The contributions for special activities contain $24 million for United Nations development coordination inclusive of $20 million from United Nations Development Group (UNDG) member organizations, $4 million for UNDP support to security, $3 million for the Engagement Facility fund and $3 million for other special activities.

Table 14. Reimbursable support services and miscellaneous activities contributions, 2016 (in millions of dollars)

	Donor resources			Total resources
	Donor country governments	Programme country governments	Multilateral partners	
Resources:				
JPO programme	17	1	-	18
UNV programme	13	-	1	14
Management service agreements	-	11	-	11
Special activities	7	1	26	34
Reimbursable support services	-	-	7	7
Total	**37**	**13**	**34**	**84**

79. Net contributor and upper-middle income programme country governments contributed $16 million to local office costs: 50 per cent in the Arab States region; 25 per cent in the Latin America and the Caribbean region; 12 per cent in the Asia and the Pacific region; and 13 per cent in the Europe and the Commonwealth of Independent States region.

Other revenue

80. Other revenue decreased by 12 per cent, to $430 million (2015: $488 million). Further details of cost-recovery revenue are presented in paragraphs 87-88.

B. Expenses

81. Expenses increased by 1 per cent, to $662 million (2015: $655 million).

Table 15. Reimbursable support services and miscellaneous activities, expenses by cost classification, 2015-2016 (in millions of dollars)

Reimbursable support services and miscellaneous activities	2016	2015	Increase/ (decrease)	% change
Expenses				
Development activities				
Programme	48	59	(11)	(19%)
Development effectiveness	68	54	14	26%
Subtotal – development activities	116	113	3	3%
United Nations development coordination activities	36	34	2	6%
Management activities	252	238	14	6%
Special purpose activities	60	48	12	25%
Other activities	198	222	(24)	(11%)
Total expenses before elimination	662	655	7	1%

Development expenses

82. Development expenses totalled $116 million (2015: $113 million), consisting of $48 million for programme activities and $68 million for development effectiveness.

83. Programme expenses comprised $7 million for management service agreements (2015: 19 million), $30 million for the UNV programme (2015: $32 million) and $11 million for special activities (2015: $8 million).

United Nations development coordination expenses

84. Support to United Nations development coordination activities reached $36 million (2015: $34 million). That included expenses of $14 million utilizing donor resources earmarked for country coordination, and $22 million in resources from UNDG member organizations in support to the resident coordinator function.

Management expenses

85. Management activities increased by 6 per cent. to $252 million (2015: $238 million), utilizing cost-recovery resources, due to better attribution of management costs between regular and other resources, and the utilization of prior year accumulated cost recovery resource balances due to the reduced level of core resources available to fund management expenses.

Special-purpose expenses

86. Special-purpose expenses totalled $60 million (2015: $48 million), representing expenses on reimbursable support service activities.

Other expenses

87. Other expenses totalled $198 million (2015: $222 million). Of this, $91 million was related to staff security on behalf of the United Nations system (funded by the United Nations Department of Safety and Security); $17 million to the JPO programme; $43 million to the UNDP share of common service activities; and $24 million to after-service health insurance.

C. Cost recovery

Cost-recovery policy

88. UNDP makes every effort to recover the general management and implementation costs associated with the delivery of other resources-funded programmes and projects and with United Nations entities.

89. Cost-recovery revenue was $346 million (2015: $352 million), and expenses were $427 million. Table 16 shows the breakdown.

Table 16. Cost recovery, 2016
(in millions of dollars)

Cost recovery	Programme and projects	Reimbursable support services	Total
Revenue			
General management/implementation support services	225		225
United Nations organizations – reimbursable services	19	42	61
Administrative agent fees	8		8
Net contributor country contributions to fund local office costs	15		15
Interest	6		6
Other	30		30
Total revenue	**303**	**42**	**346**
Expenditure			
Total expenditure	**377**	**50**	**427**

90. Following demands from funding partners, 12 general management support fee waivers were granted in 2016 (DP/2017/30, annex 2). UNDP makes every effort to attain full compliance with the cost-recovery rate and seeks to further reduce the number of waivers.

D. Accumulated surplus

91. The accumulated surplus at the end of 2016 declined by 26 per cent, to $380 million (2015: $514 million). The decline was due primarily to a deficit of $137 million drawn upon the accumulated surplus from previous years, offset by $3 million in accounting adjustments.

E. Others

92. Management service agreement revenue totalled $11 million (2015: $5 million), consisting of $11 million in contributions (2015: $7 million); refunds to donors of $2 million (2015: $2 million); and other revenue of $2 million. Total expenses registered $7 million (2015: $19 million), and the accumulated surplus at the end of 2016 was $48 million (2015: $44 million). See further details in DP/2017/30/Add.1.

United Nations Volunteers programme

93. In 2016, 6,796 United Nations Volunteers (UNV) from 153 countries supported partner United Nations entities in their peace and development activities through 7,053 assignments. The financial value of UNV operations amounted to $203 million (2015: $201 million) including support by UNDP regular resources of $8.5 million (2015: $9.8 million). Of this, programme regular resources expenses made directly by the UNV programme through the Special Voluntary Fund, cost sharing, trust funds and full funding arrangements, totalled $18.3 million (9 per cent). The remaining financial value is attributable to direct charges to United Nations organizations.

94. Contributions to the Special Voluntary Fund increased by 6 per cent, from $3.7 million in 2015 to $3.9 million in 2016, reflecting the historical fluctuations of annual contributions to the fund. Given the critical role of resources from the Fund, the UNV programme is continuously seeking to increase contributions to enable it

to further explore, expand and strengthen the role of volunteerism and its contributions to development.

95. Contributions (including multi-year contributions) received for fully funded UNVs, including contributions for fully funded United Nations Youth and University Volunteers, decreased by 15.2 per cent, from $7.2 million in 2015 to $6.1 million in 2016. UNV continued to diversify its funding sources through various partnership initiatives, including South-South cooperation. Capitalizing on the successful 2014 Partnerships Forum, a second UNV partnerships forum was organized in 2016, convening partners from both the North and the South, revitalizing existing partnerships and brokering new ones.

96. On regular resources for institutional activities, UNV received funding through UNDP regular resources, consisting of $8.8 million in 2017, a 5 per cent increase from $8.4 million in 2016. However, over the past five years the trend has shown an average year-to-year decrease of 9 per cent. To mitigate the decline, UNV is focusing on volunteer mobilization and prudent financial management. UNV notes, however, that it needs a stable and predictable level of regular resources to fulfil its mandate and provide high-quality volunteers to UNDP and other United Nations specialized agencies, funds and programmes.

Junior Professional Officers programme

97. Twenty-seven governments have agreements for the provision of JPOs and five have agreements for the provision of special assistants to resident coordinators. At 31 December 2016, UNDP administered 226 JPOs, 84 of whom were working with UNDP and affiliated funds and programmes, and 26 special assistants.

98. In 2016, total contributions were $18 million, while expenses, including support costs, were $17 million. The accumulated surplus at the end of 2016 was $17 million. UNDP received $20 million from United Nations organizations and partners to administer 142 JPOs on their behalf, and $18.5 million was delivered, including support costs.

Sector budget support

99. In its decision 2008/24, the Executive Board endorsed a pilot allowing financial contributions to pooled funding and sector budget support, on a case-by-case basis and at the request of the recipient country, in accordance with the mandate of UNDP and in line with DP/2008/36, DP/2008/36/Corr.1 and DP/2008/36/Corr.2.

100. In Burkina Faso, UNDP provides resources in two pooled-fund projects, on HIV/AIDS and human rights promotion. UNDP involvement in sector budget support in Burkina Faso started in 2008 as a four-year pilot that was twice extended for two years, with the second extension ending in January 2017. Over the period 2009-2015, UNDP participation in these common baskets amounted to $100,000 annually from regular resources and $3.3 million from other resources (Government of Luxembourg).

101. The Government of Nepal has adopted a single sector-wide approach for local governance development work at both central and local levels, and has employed a joint financing arrangement to pool resources and finances on local governance-related initiatives, projects and activities. UNDP signed the arrangement on 8 July 2014 to support the second Local Governance and Community Development Programme through sector budget support, and disbursed $200,000 in 2015 to be used exclusively for the programme.

VII. United Nations reform and support to United Nations organizations

102. UNDP coordinates the United Nations system at the country level and plays a vital role in fostering development coherence. Available data indicate that the value of joint programmes, fund flows to multi-donor trust funds, and support to United Nations organizations totalled $1,532 million (2015: $1,389 million).

A. UNDP administrative agent function

103. UNDP supports joint programming through its role in fund design and administration of joint programmes and multi-donor trust funds on behalf of the United Nations system and national governments, and through its programme implementation role as a participating United Nations organization. Contributions received for multi-donor trust funds increased slightly to $697 million (2015: $691 million), even though overall contributions were negatively affected by exchange rate movements. The growth can be attributed largely to climate change and humanitarian portfolios, and to the strong performance of a group of funds that pivot flexibly to meet needs across the humanitarian-development-peace nexus. The net value of funds transferred by the Multi-Partner Trust Fund Office, in its role as administrative agent for all participating organizations, was $748 million (2015: $764 million), including $340 million transferred to UNDP for UNDP programmes (2015: $292 million).

B. Support to United Nations organizations

104. UNDP provides services, on a cost-recovery basis, to United Nations organizations, including peacekeeping missions. The value of funds received from those organizations in 2016 totalled $835 million (2015: $698 million).

C. United Nations development coordination activities

105. UNDP plays significant roles in United Nations system coordination and country-level coordination in support of national development. Combined expenses totalled $129 million ($93 million from regular resources and $36 million from reimbursable support services and miscellaneous activities).

D. United Nations-mandated security costs

106. In its decision 2013/28 on the UNDP integrated budget, the Executive Board decided, in continuance of existing arrangements, to grant the Administrator exceptional authority, during 2014-2017, in addition to the approved appropriation from regular resources for the institutional component of the integrated budget of $1,510.4 million, to access up to $30 million in regular resources for security measures. During 2014-2016, $5 million was drawn to respond to the outbreak of Ebola virus disease in West Africa.

107. The $30 million forms part of a total estimated requirement of $65.3 million in 2015-2016. UNDP spent $30.8 million (2015: $34.5 million), including $25.4 million in other resources (2015: $26.9million). Of the $30.8 million expensed, $20.5 million (2015: $22.3 million) was associated with the UNDP share of the United Nations field security coordination programme; and $10.3 million (2015: $12.2 million) with security assessments and compliance, improvement of premises security, blast and seismic assessments, and office relocations.

VIII. 'Greening' UNDP

108. In 2016, UNDP continued to demonstrate its commitment to internal environmental sustainability and continued to implement the 2015 Executive Group-adopted 'Sustainability and Climate Neutrality Plan for Global UNDP Operations'.

109. UNDP reported its seventh global annual greenhouse gas inventory, including data from over 70 UNDP offices, and continued to track and disclose its environmental performance as part of the annual 'Greening the Blue' report. Work commenced on developing a comprehensive web-based environmental reporting and management tool to replace manual data collection and processing. The tool is expected to be launched by the end of the third quarter of 2017.

110. UNDP continued to implement measures to reduce its environmental footprint while increasing operational resilience, efficiency and security. Over 20 UNDP offices have installed or are in the process of installing photovoltaic electricity systems to reduce greenhouse gas emissions, reduce dependency on fossil fuels and improve office energy security.

111. In 2016, UNDP continued to be climate neutral in its global operations, receiving Certified Emission Reductions from the Adaptation Fund.

112. Following the success of the six-month sustainable procurement pilot study, where UNDP managed over 50 tenders in 11 countries using sustainable procurement criteria, the organization is mainstreaming these criteria into the institutional bidding documents and will be rolling them out in 2017, thus institutionalizing sustainable procurement globally.

IX. Funds administered by UNDP

United Nations Capital Development Fund

113. In 2016, UNCDF operated in 30 of the 48 least developed countries, leveraging its capital mandate to help them pursue inclusive growth.

114. UNCDF net contributions totalled $52 million, down from $58 million in 2015. The diversification of UNCDF donors remained high, with 35 development partners contributing in 2016 (compared to 37 in 2015). Contributions in 2016 included $19.7 million from private sector foundations, corporations and non-governmental organizations, representing 37 per cent of total revenue. The top overall donors to UNCDF were the Bill and Melinda Gates Foundation, the United Nations Multi-Partner Trust Fund, the MasterCard Foundation, Sweden, Switzerland, the United States of America, the European Union, Belgium, and Luxembourg. In 2016, contributions to UNCDF regular resources from donors decreased to $10 million (2015: $12 million). As a result, regular resources contributions remained below the $25 million per year required to sustain UNCDF operations in 40 of the 48 least developed countries as envisaged in the UNCDF strategic framework, 2014-2017.

115. Expenses for development activities, before elimination, totalled $63 million, including programme expenses of $60 million and development effectiveness expenses of $3 million. UNCDF disbursed $20 million in grants, as reflected in expenses. The operational reserve for UNCDF regular and other resources was $14 million. With effective management of available resources, UNCDF was able to deliver its planned development, management and financial results while sustaining its liquidity. See details of the above in annex V and DP/2017/30/Add.1, table 12.

116. The $63 million expenses excludes $2.7 million in the UNDP institutional budget and $0.8 million of UNDP programme support that were set aside for UNCDF management and technical expenditures, respectively. The amounts were expended by UNCDF but were recorded and reported separately by UNDP.